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UNITED NATIONS DEVELOPMENT PROGRAMME

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APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF VIETNAM

IPF:(1992-96) $100 402 000

(VIE/91/011) - State Enterprise Reform

Date of approval by the AC:[1/]	30 September 1992
Expected duration:	24 months
Proposed executing agency:	World Bank (IBRD)
Implementing agents:	State Planning Committee (SPC) Central Institute for Economic Management (CIEM) Ministry of Finance (MOFI) State Bank of Viet Nam (SBV)
Proposed UNDP contribution:	$2 975 000 Source of funds: IPF
Total UNDP budget:	$2 975 000
Administrative and Operational Support Services (AOS)	$297 500 Agency: IBRD

Project background

The economy of Vietnam is undergoing a major restructuring towards a more market-oriented economic system. Considerable progress has been made in substantially reducing price distortions, relaxing restrictions on trade and fostering private sector activities, especially in agriculture. Progress has also been made in substantially reducing macroeconomic imbalances. Nevertheless, some important issues need to be addressed in order to consolidate the gains already made. Particularly important is the poor performance of state enterprises, and its adverse effect on macroeconomic stability, employment and economic growth. Improved efficiency of the state enterprise sector will be critical in improving the Government's fiscal performance and in slowing growth in (subsidized) domestic credit, and thereby, in reducing inflationary pressures. The Government therefore attaches top priority to an early implementation of the State Enterprise Reform. It has requested UNDP assistance under the present approval to improve the management and financial supervision of state enterprises, restructure and clear their overdue debt, liquidate bankrupt/non-viable enterprises and, on a trial basis, divest a number of non-strategic enterprises. Resources released from inefficient state enterprises are expected to be directed to socially desirable activities which could benefit a wider cross-section of the community, including the poor and disadvantaged groups in society.

Two ongoing projects are providing assistance to lay the groundwork for the state enterprises reform programme. Both projects are being executed by the World Bank. A

[1/] **This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.**

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Japanese funded project (with a financial input of $800,000, to be completed in 1992) is addressing some of the most immediate constraints to economic reform, particularly the legal and regulatory framework. VIE/92/010 ($200,000 plus $195,000 co-financing expected from Japan) is financing training to develop the skills base for enterprise reform.

Description of project

The development objective is to provide an improved basis for greater macroeconomic stability and sustained economic growth through the development of a more efficient state enterprise sector, and by providing an enhanced policy, regulatory and macroeconomic environment for investment from all sources, including the private sector.

The immediate objectives of the project are to: (a) develop the institutional capability to formulate strategies for state enterprise reform, to coordinate implementation of these reforms, and to continually review and revise reform strategies based on feedback and evaluation during implementation; (b) design the necessary policy and legal framework to support reform; (c) improve the financial supervision and management of enterprises that remain under state ownership; and (d) transfer ownership of some enterprises and/or enterprise assets to the private sector.

After Project completion, Vietnamese institutions should have a substantially strengthened analytical and implementation capability to undertake enterprise supervision and reform. Staff from a wide range of institutions and enterprises will have been trained in formal workshops and seminars, and through on-the-job training provided by consultants, in financial analysis, business law, accounting and auditing, mergers and liquidations, labour market issues, securities and anti-monopoly regulation. A number of non-strategic, economically non-viable enterprises will have been liquidated, and trial programmes of divestiture will have been implemented and evaluated. Key policy analysts and decision makers will have had an opportunity to study how State Enterprise Reform has been managed in other countries.

Inputs

UNDP will provide five work-months for a senior policy advisor on SE reform; 24 work-months for a resident technical advisor; four unspecified state enterprise reform expert work-months; five work-months for a securities market expert; three work-months for a competition law expert; three work-months for an audit law expert; two work-months for unspecified legal expertise; three separate subcontracts in the areas of legal and policy framework, financial supervision and management, and liquidation and privatization, with a total input of 125 work-months of specialists in corporate law, state enterprise reform and privatization; six study tours focusing on policies to assist displaced SE workers, policy planning and legal aspects of SE reform, securities market development, financial restructuring/liquidation of SEs, financial techniques and institutional arrangements for SE supervision, and techniques for SE divestiture; internal workshops and seminars; four vehicles; and miscellaneous costs.

Financial data

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Personnel	713 400
Subcontract	1 830 000
Training	267 000
Equipment	125 200
Miscellaneous	39 400
Total	2 975 000